

Power to Convene

Tennessee's Governor Phil Bredesen applies his experience as a former healthcare company CEO and mayor of Nashville to show industrial investors how his state is on the right track.

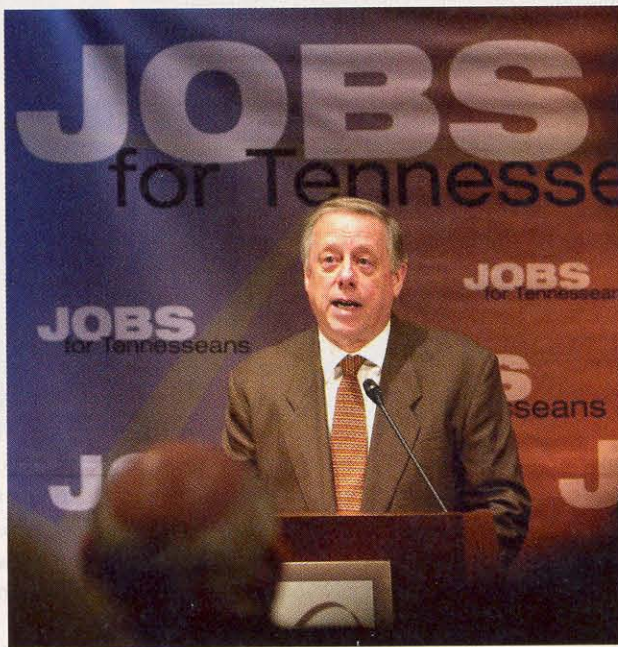
Facing re-election this November, Gov. Phil Bredesen (Dem.) is more than comfortable with his economic development record, pointing to the creation of over 100,000 jobs and dozens of corporate headquarters relocations. Now, with his state having earned its stripes as a location for automotive investment, can the governor lead Tennessee into new industrial territory? Following are highlights from a recent interview of Gov. Bredesen by *Site Selection* Editor Mark Arend.

Site Selection: *With the automotive sector firmly in place, how is Tennessee's industrial landscape likely to evolve in the next few years?*

Gov. Bredesen: We certainly will continue to push the automotive sector. We are very well positioned geographically and in terms of business climate and who's already here — especially with the Nissan relocation here. While some of those jobs are more conventional manufacturing jobs, there are lots of high-tech opportunities with the kinds of modern manufacturing the automotive industry is using. That would be very high on my list. And for assembly plants, of course, there are many opportunities for parts suppliers and service providers to these plants.

Secondly, we have a unique situation in east Tennessee with the combination of the University of Tennessee and the Oak Ridge National Laboratory. Oak

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Ridge is a major national laboratory employing literally thousands of professionals. I am very interested in how we can take that axis — they are about 30 miles [12 km.] apart — and turn it into an area in which new technologies such as information technology and biotechnology and related businesses are coming. At Oak Ridge, the Spallation Neutron Source [a technology for high-end scientific research and industrial development] is about to come online; that is a multi-billion-dollar project that is the largest science project in the world right now. It will position that area for a couple of decades as the place in which nanotechnology, materials science and

related fields will happen. If we play our cards right, we can turn that into a good economic driver.

Also, while every city in the United States with a population over 10,000 is trying to do biotechnology, we have in Memphis some really interesting opportunities in that field. It already is a major medical-device supplier to the nation. We have some major research facilities there, and the state has actually been investing in that area as well.

SS: *Would you comment on the boat-building cluster taking shape in and around Knoxville?*

Gov. Bredesen: I've watched that happen over the years with health care in Nashville, too, where one thing leads to another. In the case of boat manufacturing, that is obviously an industry in which transportation

costs are enormous and an enormous part of the price. Tennessee is a very well located state in which to build these craft, and it's accessible to so much of where they are sold. It's something we will continue to push. But as I've found with health care here in Nashville over the years, the more that's here, the more that comes, because they can hire people, people can start new enterprises as competitors or as suppliers; it's a good situation.

SS: *What have been your most significant economic development challenges so far, and how are you overcoming them?*

Gov. Bredesen: Without a doubt, it's the patchiness of it, the difficulty in rural areas — that's not something that is unique to Tennessee. I don't know other governors who aren't struggling with how you keep manufacturing plants in rural areas and places that are not right on Interstates and so forth. But I have found that in the major urban areas, we have been very successful in recruiting businesses. When you get into some of these more rural communities that may have had some low-tech manufacturing that went overseas or left due to consolidation, it is really hard to recruit and expand business back in there. We have parts of west Tennessee that were big in the sewing industry, and they lost literally thousands of jobs to Mexico over the last decade. There just are not industries coming in to employ those large numbers of less-skilled and semi-skilled labor that they employed. It's been a real challenge.

In addition to actively trying to recruit industry to these areas, we are doing a lot of training of local officials and chambers of commerce in how you go about actually recruiting. I was the mayor of Nashville for eight years prior to becoming governor, and Nashville had a pretty sophisticated recruiting operation. When I'm in rural communities, they say their big problem is not having [presentation skills and resources] with which to recruit. There is a vast disparity in capability, and I'm trying very hard to level that, so the smaller communities can compete effectively.

SS: During your time as Nashville's mayor, both Dell and HCA made significant investments in the city. To your mind, what were the factors that closed those deals?

Gov. Bredesen: First of all, while anyone who is governor likes to take personal credit for recruiting successes, the reality is that Nashville had become a place where the talk was really good about it. The business climate was good, we had recruited a couple of major league sports teams, including the Houston Oilers in the '90s, and we got on the radar screen of a lot of people. Both

Dell and HCA I was directly, personally involved with, and I do think there is a selling component to it. I came to politics from the business world, and that does give one a little more sense of how to deal with businesses and what is really important to them, rather than if your background is as a lawyer or the like. So that helped. While I'll take some credit for it, getting the talk right about the city and getting the business climate in Tennessee right had an enormous impact on those decisions.

"I came to politics from the business world, and that does give one a little more sense of how to deal with businesses and what is really important to them."

— Tennessee Governor Phil Bredesen

SS: Many states are working on tort reform and workers' comp matters in order to compete more effectively for corporate investment. What's happening in Tennessee in these areas?

Gov. Bredesen: Workers' comp is something I tackled two years ago, or two legislative sessions ago. Tennessee had gotten into a position where our workers' comp costs and therefore rates were out of line with competing states. I'm a Democratic governor, and this probably has a Nixon-goes-to-China attribute about it — a Democratic governor was probably able to get some reform done in this area in a way that maybe someone else couldn't have. We made significant changes in the workers' comp laws in the state. I made some enemies out of people who I would like to be my friends in the process, but it really changed the business climate.

Frankly, when we talked to Nissan about the headquarters here, the workers' comp changes were important to them, but I would also say the willingness of the state to step up to difficult and contentious problems was probably equally impressive. It wasn't just workers' comp; it was the feeling that if things come up in the future, this state is capable of putting Democrats and Republicans together and solving the problem, and not sitting back and

watching them become ideological debates.

As for tort reform, we haven't had much of a problem in that area. There is some pressure on the medical malpractice side, but in terms of general tort reform, it hasn't been much of an issue here. Tennessee has not been a state that's been known for big jury awards and those types of things. When I'm asked about it, I want to see numbers. If you can show me that if it's something where we could do something that would make us more attractive to business, I'm willing to pick it up and tackle it. That has not been the case with generalized tort reform so far.

SS: How involved should a governor be in bringing a major facility into his or her state?

Gov. Bredesen: Governors ought to be very involved. I have the experience of being governor and as having been the CEO of a company. Governors probably have far less power than a typical corporate CEO in terms of hiring and firing people and doing things. But the one thing you can do as governor that totally transcends anything you could ever do comparably in the private sector is you can convene people. People will return the governor's phone call, and I've used that a lot to get to companies thinking about doing things. It's about making sure they're getting the information they need and if they come here, that's the beginning of the marriage, not the end of the process. We will continue to work with them to keep them happy, and my phone line is open to them. Perhaps the largest power of someone in an office like governor is that power to convene.

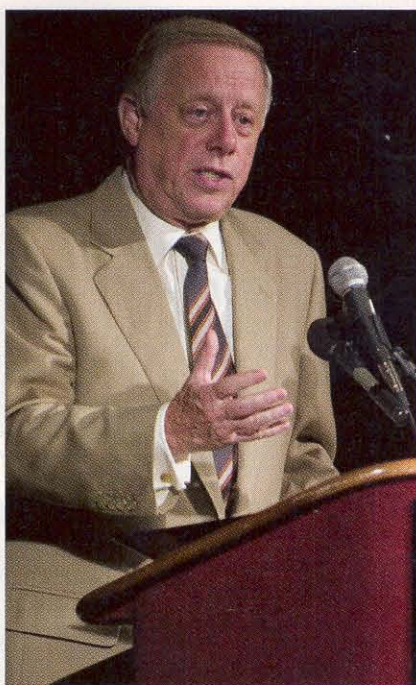
SS: Do you have a philosophy on the role of incentives in bringing industry to the state?

Gov. Bredesen: Yes, I do. First, I'd say they are necessary. If there were some federal, constitutional amendment that made them impossible to use, that's not necessarily a bad thing for the country. But absent that, the reality is you have to go out and compete, and there are plenty of places willing to do that. I tell people here that I don't know whether it's fair or appropriate for some-

one to charge \$90,000 for a Mercedes-Benz. I know that if I want one, that's what I have to pay. Without getting into the debate about the appropriateness of government subsidies and so forth, if I want businesses here, we have got to play in that arena.

We certainly do far less in that regard than many of the states we compete with. On our borders, Kentucky and Mississippi in particular are much more aggressive than we are about it. I don't necessarily want the companies for whom incentives are the whole game, but you've got to be willing to do some things and to be creative — certainly not to get knocked out in the first round with the relocation consultants.

My philosophy has always been that I am not willing to put investment on the table on the front end — I don't want the tax base of the state to go down as a result of a company coming here. I am willing to put some of the increased taxes that will be paid as a result of that on the table so we might get half as much tax revenue as we might otherwise. I used that same strategy when I was mayor. I think it's a sound place to be.



SS: *Has Tennessee's right-to-work status made a difference in the state's competitive profile?*

Gov. Bredesen: Particularly in the industries that are used to union labor — the automotive industry, for example — it's very much a part of the competi-

tive picture here. I'm a good Democrat, but I have no intention whatsoever of altering that arrangement.

SS: *What is happening legislatively in Tennessee that is of interest to corporate site selectors?*

Gov. Bredesen: This is a small business item, but certainly the health care program we developed for small businesses is somewhat subsidized by the state. I believe this will help small businesses a lot in the state. A number of businesses I've met with plan to use it as an employee retention vehicle. We made some additional improvements to our investment tax credit — we're now a tiered system where we were not before. And the headquarters tax credit has been a significant tool in the arsenal for bringing corporate headquarters here. That was done on my watch. We've had 23 corporate headquarters relocate here, and the headquarters tax credit has been a significant part of that.

SS: *How does economic development fit into your re-election strategy?*

Gov. Bredesen: It's important. I'm a Democratic governor, but out of the business world. There are things I want us to do for people, but I just fundamentally believe that the way you go about doing that is to have a strong and growing economy with a strong and growing top line in the state that produces the tax revenue to let us do things to help more and more people participate in the economy. There are things I want to do in education, to help children in the state. But the way you do that is to have a strong, growing economy, jobs, a tax base, and that will in the end make a huge difference. In my re-election bid, I'm talking about education, health care and jobs. Those are the three legs of the stool. If we're producing a new generation of people with the skills, and keeping the kids healthy, and if we create the jobs it takes to keep people at all skill levels in our state working, we will do just fine. In the past three and a half years, about 103,000 jobs have been created and a little over \$12 billion in new investment, particularly coming out of a really flat period. Things are starting to take off now. I'm running for re-election, and I'm bragging about it. **SITE**

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Something in the Water

As if to rival the Nashville area's automotive industry cluster or Memphis' mix of logistics assets, eastern Tennessee — particularly the Knoxville-Oak Ridge area — is emerging as a leading boat-building hub. The Tennessee Valley Authority's system of lakes and waterways supplies the water resources for testing boats, and the inland location makes it largely immune from hurricanes that typically land on Gulf Coast or southeastern U.S. locations.

Christensen Yachts recently announced plans to build ultra high-end leisure craft at Tellico Lake. How high-end? The cost of one of Christensen's top-line yachts is 250 percent more than the cost of the new, 400,000-sq.-ft. (37,000-sq.-m.) manufacturing facility the company will build; the building will cost US\$20 million, and the yacht will fetch \$50 million.

Brunswick Boat Group, a division of Lake Forest, Ill.-based **Brunswick Corp.**, moved its headquarters to Knoxville from Chicago. It already operates two plants in the area, where it builds the Sea Ray line of leisure craft and employs about 2,300 people.

Kansas-based **Cobalt Yachts** is another newcomer to the

region. The Knoxville-Oak Ridge area beat sites in five other southeastern states. Other boat-building companies in the cluster are Mastercraft Boats, Tennessee Watercraft, Malibu Boats, Bullet Boats and Leisure Kraft Pontunes. And this investment is attracting a range of supplier companies to the area, as well.



Photo courtesy of Brunswick Boat Group

A downside in such scenarios can be a high churn rate as workers seek higher wages at another company, or a premium on the cost of labor due to the heightened competition for it. But there is definite upside, too.

"Many companies, from small manufacturers to large ones, compete with us in the marketplace," says LuAnn Jarnagin, vice president, organizational development, at

Brunswick Boat Group. "But I feel strongly that a company with a longstanding commitment to the region and to its people and a good reputation will not have a problem finding and keeping the right labor. You still have to make sure you're upgrading your practices and policies and benefit offerings, but I don't feel threatened in any way. Frankly, competition brings out a better-skilled worker and greater talent. It creates a better work force from which to recruit workers." —Mark Arend



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